



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditor's report

Lesedi Local Municipality

30 June 2015

Acknowledgment of receipt

Lesedi Local Municipality

I acknowledge that I have received the Audit Report for the year ended 30 June 2015.

Name:

Date:

Signature



AUDITOR-GENERAL
SOUTH AFRICA

Cllr Lerato Maloka
Mayor: Lesedi Local municipality
P O BOX 201
HEIDELBERG
1438

30 November 2015

Dear Honourable Mayor

Changes in the 2014-15 MFMA audit report handover and clean audit awards function

The Auditor-General of South Africa (AGSA) endeavour and continue to communicate clear, actionable messages to government and the public at large on the outcomes of the audits as we regard this as critical in achieving our mission.

In finalising the audit cycles, it has been custom for the AGSA Gauteng office to host an audit reports handover session where we hand over the audit reports to the Executive Authorities and Accounting Officers that were audited during the audit cycle.

The AGSA has embarked on a process enhancement initiative to standardise the audit report hand over functions throughout the country. For this reason, the 2014-15 MFMA hand over function has been deferred until further notice.

We hereby advise that the audit report that would have otherwise been handed over at the ceremony will now be hand delivered to you by the respective engagement managers.

As the AGSA, we remain committed to our strategic initiative of visibility for impact, and we will continue to engage in this manner.

Yours faithfully

pp Mabatho Sedikela

Mabatho Sedikela
Business Executive: Gauteng

Enquiries: Lerato Pooe
Telephone: (011) 703 7814
Fax: (011) 703 7690
Email: leratob@agsa.co.za

Report of the auditor-general to the Gauteng Provincial Legislature and the council on Lesedi Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lesedi local municipality as at 30 June 2015 and its financial performance and cash flow for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 42 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered in the financial statements of the Lesedi Local Municipality during the year ended 30 June 2015.

Material losses

10. As disclosed in note 55 to the financial statements, material losses amounting to R17 509 431 (2014: R21 523 139) were incurred as a result of electricity distribution losses which represent 14% (2014: 14%) of total electricity purchased. The total technical losses of electricity amounted to R6 467 545 (2014: R2 787 634). Non-technical losses amounted to R11 041 886 (2014: R18 735 505) and are due to theft, tampering and faulty meters.

Material impairments

11. As disclosed in note 12 to the financial statements, material impairments to the amount of R330 528 204 (2014: R286 347 662) representing 85% (2014: 82%) of consumer debtors were incurred, as the recoverability of these amounts is doubtful.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Programme 2: Basic service delivery on pages x to x
 - Programme 3: Local economic development on pages x to x
 - Programme 4: Financial viability and financial management on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected programmes are as follows:

Programme 2: Basic service delivery

Usefulness of reported performance information

20. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 83% of the reported objectives were not consistent with those in the approved IDP and SDBIP. This was due to lack of standard processes to ensure that changes to the SDBIP were incorporated in the performance report.
21. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. Significantly important targets in relation to overall mandate of the municipality were not specific.

22. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for significantly important targets in relation to overall mandate of the municipality.
23. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. Significantly important indicators in relation to the overall mandate of the municipality were not well defined.
24. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Significantly important indicators in relation to overall mandate of the municipality were not verifiable.
25. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

Programme 3: Local economic development

Usefulness of reported performance information

27. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported objectives were not consistent with those in the approved IDP and SDBIP. This was due to lack of standard processes to ensure that changes to the SDBIP were incorporated in the performance report.
28. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. Significantly important targets in relation to overall mandate of the municipality were not specific.
29. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for significantly important targets in relation to overall mandate of the municipality.
30. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. Significantly important indicators in relation to the overall mandate of the municipality were not well defined.
31. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Significantly important indicators in relation to overall mandate of the municipality were not verifiable.

32. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

33. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

Programme 4: Financial viability and financial management

Usefulness of reported performance information

34. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. Significantly important targets in relation to overall mandate of the municipality were not specific.
35. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for significantly important targets in relation to overall mandate of the municipality.
36. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. Significantly important indicators in relation to the overall mandate of the municipality were not well defined.
37. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Significantly important indicators in relation to overall mandate of the municipality were not verifiable.
38. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

39. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

Additional matters

40. I draw attention to the following matters:

Adjustment of material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of programme 2: Basic Service Delivery, programme 3: Local Economic Development and programme 4: Financial Viability and Management. Those that were not corrected are included in the basis for qualified / adverse conclusion paragraphs.

Achievement of planned targets

42. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected programme reported in paragraphs 19 to 28 of this report.

Compliance with legislation

43. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal audit

45. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the Municipal Planning and Performance Management Regulations, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

Procurement and contract management

46. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) & (c).

47. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

48. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
49. Construction contracts were awarded to contractors that did not qualify for the contract, in accordance with CIDB regulations 17 and 25(7A).

Expenditure management

50. Reasonable steps were not taken to prevent and detect unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.
51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the Municipal Finance Management Act.

Consequence management

52. Irregular expenditure incurred by the municipality in the prior year was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the Municipal Finance Management Act.

Internal control

53. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

54. Leadership did not adequately perform oversight responsibility over financial reporting resulting in material misstatements on the financial statements and non-compliance with the MFMA and SCM legislation.
55. The municipality developed a plan to address audit findings, but adherence to the plan on key items such as procurement and contract management as well as performance reporting were not monitored on a timely basis by the appropriate level of management.

Financial and performance management

56. Leadership did not have effective monitoring controls in place to ensure that the financial statements and performance reports are supported by complete, relevant and accurate information.

Auditor-General

Johannesburg

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence